



Directorate of
Intelligence

Secret

25X1

MASTER FILE COPY

**DO NOT GIVE OUT
OR MARK ON**

Syria: Economic Consequences of the Lebanese Fighting

25X1

An Intelligence Memorandum

State Dept. review completed

Secret

NESA 82-10440
August 1982

Copy **354**

Page Denied



Directorate of
Intelligence

Secret

25X1

Syria: Economic Consequences of the Lebanese Fighting

25X1

An Intelligence Memorandum

This memorandum was prepared by [redacted]
[redacted] Arab-Israeli Division, Office of Near East-
South Asia Analysis. Contributions were made by
[redacted] International Security Issues
Division, Office of Global Issues. Comments and
queries are welcome and may be addressed to the
Chief, Arab-Israeli Division, [redacted]

25X1

25X1

25X1

25X1

The paper was coordinated with the National
Intelligence Council and the Directorate of
Operations. [redacted]

25X1

Secret

NESA 82-10440
August 1982

Secret

25X1

**Syria: Economic Consequences
of the Lebanese Fighting**

25X1

Summary

Syrian President Assad has a proven ability to turn Middle Eastern crises to Syria's short-term financial advantage, and this war has been no exception. Syria's traditional Arab patrons, which had been widely reported to be holding back aid payments because of Damascus's support for Iran, have given Syria nearly \$1 billion in the two months since the outbreak of hostilities in Lebanon. The cash will temporarily ease Syria's severe foreign exchange shortage. []

25X1

Riyadh could try to use its financial leverage to moderate Assad's political stances, but we believe Assad is unlikely to make any major security-related concessions simply to placate his financial supporters in the Gulf. Assad undoubtedly recognizes that the Saudis fear his ability to threaten regional stability and probably believes that when truly dire financial crises hit Syria, he will be able to exploit the Saudis' concern to get the money he needs. []

25X1

Over the longer run, the cash will not erase Syria's serious economic problems. The armed forces' poor showing against Israel is likely to prompt President Assad to launch a major effort to upgrade the military that will require defense expenditures well above the already-high prewar level. Longstanding official neglect of Syria's highly centralized economy will probably increase as Assad and other top officials become even more preoccupied with military and foreign affairs. []

25X1

*Information available as of 29 July 1982
has been used in the preparation of this report.*

Secret

NESA 82-10440
August 1982

Secret

25X1

**Syria: Economic Consequences
of the Lebanese Fighting**

25X1

**Foreign Exchange
Crunch**

Syria's imports have consistently outrun its ability to earn hard currency to pay for them. To finance its perennial trade deficit, Damascus depends heavily on aid—predominantly from other Arab states under the 1978 Baghdad pact to support Syria's role as a frontline confrontation state vis-a-vis Israel (table 1). Foreign aid receipts covered nearly half of Syria's estimated \$3.9 billion 1981 trade deficit. [REDACTED]

25X1

Before the outbreak of hostilities, little of the \$1.85 billion in Baghdad pact aid due to Syria this year had arrived. Rumors spread earlier this year that the Gulf states would cancel their \$1.2 billion share altogether if Arab states persisted in supporting Iran against Iraq; Iraq, Libya, and Algeria have traditionally reneged on their commitments to pay the rest. As of 5 June, the day before the Israeli invasion, [REDACTED] Damascus had received only about \$350 million of the Baghdad aid. [REDACTED]

25X1

The lack of aid seriously aggravated Syria's chronic foreign exchange problems. By 8 April, foreign exchange reserves had dropped to just \$80 million—enough to finance only one week's worth of civilian imports. The US Embassy has reported that virtually all businesses requiring imports of any sort had been forced to operate at reduced levels for months. The high-level government committee that reviews all import requests was willing to approve only such essential commodities as food. Even after the committee gave its approval, public-sector firms were forced to wait three to 10 weeks before the government-controlled banking system had the foreign exchange available. The delay for private-sector importers ranged from three to six months, [REDACTED]

25X1

25X1

Secret

Secret

Table 1

Million US \$

Annual Baghdad Commitments to Syria, 1979-88

Total	1,850.00
Saudi Arabia	528.57
Kuwait	290.71
Libya	290.71
Iraq	274.86
United Arab Emirates	211.43
Algeria	132.14
Qatar	121.58

25X1

Spoils of War

Assad has a proven ability to turn Middle East crises to Syria's short-term financial advantage, and this war has been no exception. In the two months immediately following the Israeli invasion of Lebanon, we estimate that Damascus may have received nearly \$1 billion in direct financial aid from Arab states.

25X1

25X1

The Arab aid has helped Syria spare its populace any immediate adverse impact of the war. [redacted] no significant market shortages have arisen, despite widespread price controls that could have exacerbated the effects of any panic buying. By mid-June, the Syrian Government had been able to clear all but about six weeks of the backlog in importers' requests for foreign exchange. [redacted]

25X1

25X1

Secret

Secret

25X1

**And Now,
the Bad News**

The war-related cash is only a temporary boon to the hard-pressed Syrian economy. Import applications, for example, were once again piling up by the end of June, [REDACTED]

If Syria were forced to rely on export earnings and normal aid payments to finance substantial amounts of sophisticated new military equipment, the strain on the government's budget and foreign exchange holdings would be enormous. Domestic defense spending, excluding imports, accounted for over 30 percent of the 1981 budget; 1981 military imports are estimated at an additional \$1.9 billion. Payments for these and back-year imports probably took the lion's share of Syria's 1981 export earnings (table 3). [REDACTED]

25X1

We believe that Syria's military reverses will prompt Assad to try to enlarge and upgrade the Syrian military establishment. The principal economic cost of the buildup will probably be importing new and improved military hardware. [REDACTED]

The Syrians, who blamed part of their poor showing on the low quality of Soviet military equipment, will possibly turn to Western suppliers for at least some of their future military needs. Although the outlays for Western arms could probably be higher than the cost of equivalent Soviet materiel, we believe the Saudis could be more inclined to underwrite such purchases in an attempt to chip away at Moscow's position in Damascus. [REDACTED]

25X1

25X1

Secret

Page Denied

Secret

Table 3

Million US \$

Syria: Balance of Payments

	1977	1978	1979	1980	1981 ^a	1982 ^b
Merchandise balance	-1,961	-2,029	-3,394	-4,258	-3,910	-4,400
Exports	1,069	1,062	1,647	2,112	2,090	2,600
Oil	621	658	1,134	1,334	1,400	1,900
Imports	3,030	3,091	5,041	6,370	6,000	7,000
Military ^c	644	897	1,990	2,437	1,868	3,000
Services balance	-69	-195	-244	-398	-450	-430
Exports	383	358	470	456	450	470
Imports	452	553	714	854	900	900
Private transfers	92	94	112	137	150	130
Current account	-1,938	-2,130	-3,526	-4,519	-4,210	-4,700
Capital account	2,129	2,028	3,717	4,269	4,175	4,640
Foreign aid	1,126	1,117	1,967	1,950	1,900	2,400
Long-term capital	228	359	75	-25	50	25
Other	775	552	1,675	2,344	2,225	2,215
Change in reserves	191	-102	191	-250	-35	-60

^a Estimated.^b Projected.^c Actual deliveries; payments may not coincide with delivery schedules.

25X1

We believe that Assad will probably enlarge the Syrian military establishment, adding 15,000 to 25,000 men—about 1 percent of the labor force—to the military. This will cause only a relatively small drop in civilian production, however, because labor productivity in the dominant public sector is low. Nationalized industries have long been overmanned in a political move to cut unemployment.

25X1

Outlook

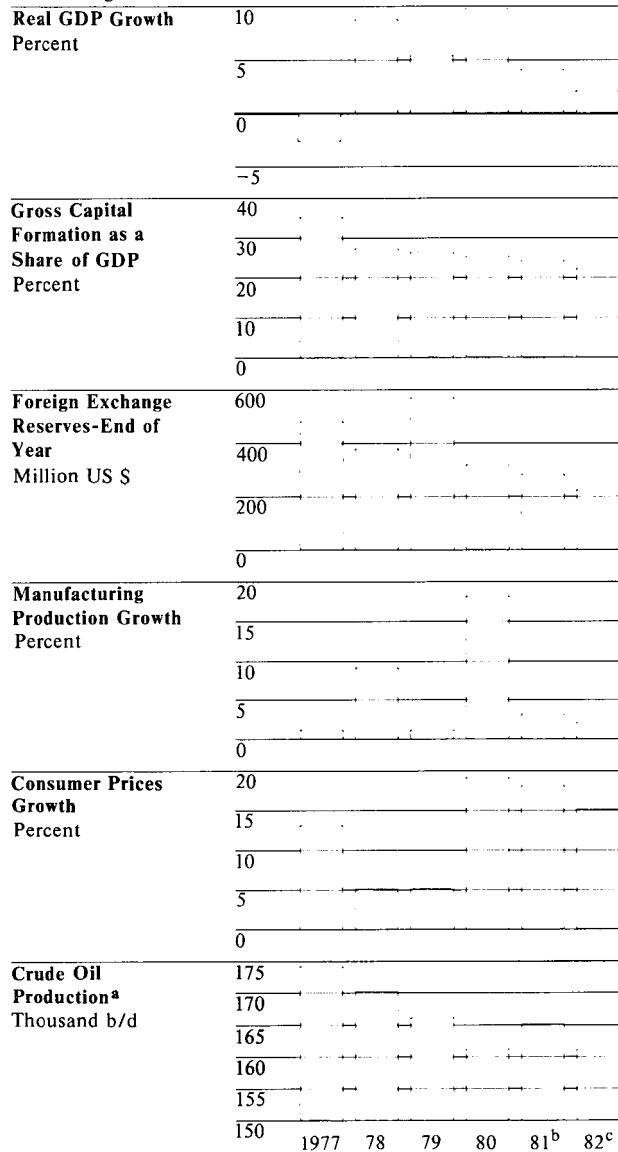
President Assad has in the past demonstrated little interest in Syria's serious economic problems, including inflation, low productivity, chronic foreign exchange shortages, and poor development planning. Assad sees the Lebanese situation as the single most important issue of the coming months, and as a result will probably pay even less attention to the economy. With decisions on economic policy usually bucked as far up the line as possible, the top-level preoccupation with military and foreign affairs will mean that Syria's chronic, fundamental economic woes will continue to worsen.

25X1

Secret

Syria: Economic Indicators

Note change in scales

^aExcluding natural gas liquids.^bEstimated.^cProjected.

25X1

587193 7-82

Secret

Secret

25X1

There is little prospect, therefore, that Syria will be able to earn enough foreign exchange to finance its import needs during Assad's tenure. If resultant commodity shortages or other economic problems begin to prompt credible threats to Assad's survival in office, the Gulf states would in all likelihood pump in enough money to try to defuse the situation, though it is too early to tell whether all of the Baghdad commitments as such will be met, or whether Assad will have to make ad hoc requests for each tranche of aid. As little as the Gulf regimes like Assad and his policies, they would probably prefer to deal with him than face the prospect of an unknown, and possibly more intransigent, successor. Gulf leaders are already extremely nervous about Tehran's regional ambitions; they are anxious to forestall any potential subversive threats from Damascus.

Riyadh could try to use its financial leverage over Assad to moderate his political stances. Such direct linkages—if implemented—would prove a significant departure from past Saudi policy, as Riyadh traditionally has been hesitant to withhold aid in order to extract political concessions. The Saudis have usually preferred to use the carrot—holding out a promise of additional aid—rather than the stick. If the Saudis were to provide Syria with extra financial aid to help pay for replacement of Damascus's destroyed military equipment, some of Syria's foreign exchange would be freed up to finance imports of raw materials and consumer goods. There is, however, a limit to the Saudis' generosity, particularly in view of the drastic reduction in their current account surplus caused by the soft oil market.

25X1

The Saudis are pressing Syria hard to accept Palestinian fighters from West Beirut. Assad is probably willing to resettle some Palestinians from Beirut in Syria, but he is holding out for Gulf financial aid to "induce" him to do so. In mid-July Assad was preparing to send an envoy to Saudi Arabia, and we believe he will negotiate a substantial package of aid from the Saudis before Syria actually accepts the fighters.

25X1

Because he is far more concerned about foreign policy and security issues than about the domestic economy, we believe Assad will be unlikely to make any major security-related concessions simply in order to placate his financial supporters in the Gulf. Assad undoubtedly recognizes that the Saudis fear his ability to threaten regional stability and probably believes that when truly dire financial crises hit, he will be able to exploit the Saudis' concern to get the money he needs.

25X1

Secret

Secret

Approved For Release 2008/08/01 : CIA-RDP83S00854R000100120007-6

Secret

Approved For Release 2008/08/01 : CIA-RDP83S00854R000100120007-6